

# Fairfax County Economic Index

Volume VI, Number 7

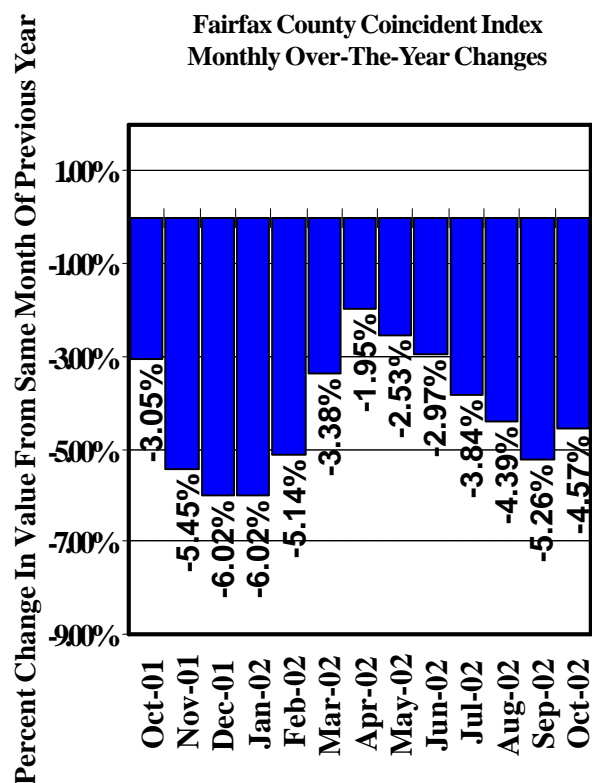
December 2002

## County Economy Gains in October Leading Indicators Are Mixed

The **Fairfax County Coincident Index**, which represents the current state of the County's economy, increased to 121.0 in October for a gain of 1.52 percent from its September level. October's gain in the Index was its first in four months and second increase dating from April. Despite this increase, October's Index level was still 4.6 percent below its level in October 2001. Three of the Index's four components were positive in October.

- Total employment increased in October following three monthly declines;
- Transient occupancy tax collections, adjusted for inflation and seasonal variation, increased for the second month in a row; and,
- Consumer confidence (in the present) was up for the first time in four months; while,
- Sales tax collections, adjusted for inflation and seasonal variation, were down slightly after declining sharply in September.

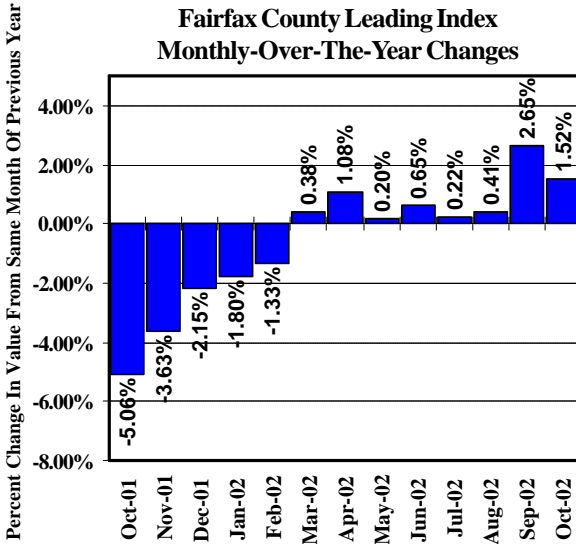
The **Fairfax County Leading Index**, which is designed to forecast the performance of the County's economy nine to twelve months in advance, decreased to 103.1 in October for a decline of 0.6 percent from its September value. This decrease in the Leading Index follows two



Source: Center for Regional Analysis, George Mason University

monthly gains and an upward trend dating from May. In October, three of the Index's five components contributed to its decline.

- Initial claims for unemployment insurance increased (worsened) in October after improving in August and September;



Source: Center for Regional Analysis, George Mason University

- Consumer expectations (consumer confidence six months hence) declined sharply after registering improvement in September; and,
- Residential building permits decreased for the second time in three months; while,
- The total value of residential building permits increased following their decline in September; and,
- New Automobile registrations had a strong gain after being negative in the preceding two months.

The Fairfax County economy registered its first solid gain since the second quarter in October although the “front end” of the economy experienced renewed weakness. The uncertainty that has plagued the local and national economies continued to dampen the recovery although inherent strengths have continued to off set the negative indicators. It is apparent from the seesaw performance of individual as well as aggregate indicators that the County economy still has not built up sufficient momentum to sustain renewed expansion. However, October’s performance may be the first step toward sustaining and accelerating the expansion although there are also new signs that this may not occur until the first quarter of 2003.

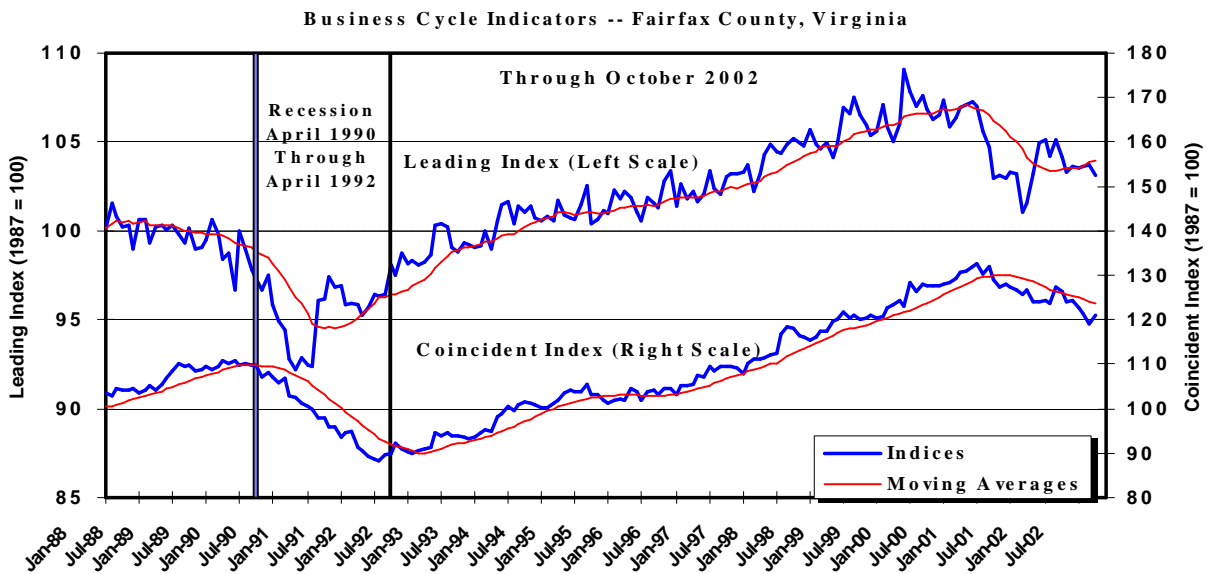
## CURRENT CONDITIONS

The County’s economy continues to under-perform its historic trend with October’s gain only slightly moderating the negative trend of the previous six months. With the Coincident Index still 4.6 percent lower than it was in October 2001, it is important to examine the performance of each indicator over this period. Employment in Fairfax County had a six-year record of expansion up until a year ago. Since October 2001, the County’s employment base has experienced job losses in seven of 12 months. However, with its gain in October, the County’s employment base is up 1.2 percent from October 2001. Still, unemployment has increased from its record lows of less than 1.0 percent in 2000 to 2.7 percent currently, although this level is down slightly from September.

Perhaps a more telling indicator is the number of County residents reported to be working. This number reflects self-employed and contract workers as well as regular full-time employees and therefore provides a broad measure of the economy’s ability to generate and support new activity. In October 2002 the number of County residents holding jobs was down almost 6,000 from October 2001.

All other measures of the economy’s current performance are under-performing their same-month levels from October 2001. Transient occupancy tax collections, a measure of the hospitality industry’s condition following the September 11 terrorist attack, are down 31.5 percent (on a seasonally and inflation adjusted basis) from October 2001 although they have shown modest gains during the last two months. Sales tax receipts are down 8.5 percent on a seasonally and inflation adjusted basis from October 2001. They also were down most recently in September and October.

Consumer confidence was lagging even before 9/11 but moved higher in the second quarter of 2002 only to be undermined by a series of events and concerns during the third quarter. For the October-to-October period, consumer confidence is off 4.5 percent. Uncertainty and the continuing weak performance of the national, regional and



Source: Center for Regional Analysis, George Mason University

local economies have all contributed to the County's economy failure to regain momentum this year.

## ***NEAR-TERM OUTLOOK***

While the Leading Index declined in October, its performance over the year has been generally positive. During the last twelve months, it has been up seven times and has recovered its losses following 9/11. For this period it is up 1.5 percent but remains well below its peak value achieved in early 1999. Still, on a monthly over-the-year basis, the Leading Index has been positive for eight consecutive months and continues to point towards the sustained expansion of the overall County economy.

In spite of this positive monthly over-the-year performance, three out of five leading indicators had lower values in October 2002 than in October 2001. Actually, initial claims for unemployment insurance were also down, but this reflects an improvement in the labor market as layoffs fell back to pre-slow down levels. And, consumer expectations (which were down in October) have improved. However, new automobile registrations, residential building

permits and the value of residential building permits are all well below their October 2001 values.

For the economy to accelerate in the coming months, consumer confidence (both in the present and in the near future) must grow. Confidence will pick up as the employment base expands and the threat of layoffs and business failures recedes. As long as high visibility business failures continue, such as the recent bankruptcy announcement of United Airlines and planned layoffs by AOL, uncertainty will threaten consumer confidence. Fears of war with Iraq and/or an actual war will further fuel uncertainty and undermine the positive forces in the economy.

Consumer and business spending are needed to drive the economy's expansion but growth of spending has not been sufficient to move the economy higher in spite of the lowest interest rates in forty years along with federal tax reductions. While the economy appears to be on the verge of renewed growth, spending during the fourth quarter is not expected to be enough to achieve a breakout. Rather, it appears that it may take until mid-2003 before the economy can regain its traction and sustain the long anticipated expansion.

## Fairfax County, Virginia Economic Indicators Current and Previous Months

Economic Indicator	Estimates			Percent Change	
	Oct-02 Prelim.	Sep-02 Final	Oct-01 Final	Sep-02 to Oct-02	Oct-01 to Oct-02
<b>Fairfax County Business Cycle Indicators</b>					
Coincident Index (1987 = 100)	121.03	119.22	126.82	1.52	-4.57
Leading Index (1987 = 100)	103.10	103.72	101.55	-0.60	1.52
<b>Fairfax County Coincident Index Components</b>					
Total Covered Employment (Seasonally Adjusted)	564,559	559,480	557,980	0.91	1.18
<i>Total Covered Employment (Unadjusted)</i>	<i>564,536</i>	<i>560,084</i>	<i>557,958</i>	<i>0.79</i>	<i>1.18</i>
Transient Occupancy Tax (\$'000='87, Smoothed, Seasonally Adjusted)	288	269	421	7.34	-31.47
<i>Transient Occupancy Tax (\$'000=Current, Smoothed Only)</i>	<i>512</i>	<i>509</i>	<i>717</i>	<i>0.69</i>	<i>-28.52</i>
Sales Tax Receipts (\$'000='87, Seasonally Adjusted)	7,995	8,116	8,733	-1.49	-8.46
<i>Sales Tax Receipts (\$'000=Current, Unadjusted)</i>	<i>9,534</i>	<i>10,437</i>	<i>10,504</i>	<i>-8.65</i>	<i>-9.23</i>
South Atlantic Consumer Confidence	103.0	100.5	107.8	2.49	-4.45
<b>Fairfax County Leading Index Components</b>					
New Automobile Registrations (Seasonally Adjusted)	7,172	5,849	7,466	22.63	-3.93
<i>Automobile Registrations (Unadjusted)</i>	<i>6,902</i>	<i>6,651</i>	<i>7,184</i>	<i>3.77</i>	<i>-3.93</i>
Initial Unemployment Claims (Seasonally Adjusted)	1,816	1,787	2,951	1.63	-38.47
<i>Initial Unemployment Claims (Unadjusted)</i>	<i>1,670</i>	<i>1,496</i>	<i>2,714</i>	<i>11.63</i>	<i>-38.47</i>
<i>South Atlantic Consumer Expectations (Unadjusted)</i>	<i>82.7</i>	<i>101.9</i>	<i>71.3</i>	<i>-18.84</i>	<i>15.99</i>
Residential Building Permits (Number of Units, Seasonally Adjusted)	301	504	397	-40.31	-24.13
<i>Residential Building Permits (Number of Units, Unadjusted)</i>	<i>327</i>	<i>541</i>	<i>431</i>	<i>-39.56</i>	<i>-24.13</i>
Residential Building Permit Value (\$'000='87, Seasonally Adjusted)	25,318	20,712	38,089	22.24	-33.53
<i>Residential Building Permit Value (\$=Current, Unadjusted)</i>	<i>44,936</i>	<i>35,448</i>	<i>64,810</i>	<i>26.77</i>	<i>-30.67</i>
<b>Fairfax County Labor Force</b>					
Total Labor Force (Seasonally Adjusted)	592,658	592,508	598,683	0.03	-1.01
<i>Total Labor Force (Unadjusted)</i>	<i>587,612</i>	<i>588,235</i>	<i>593,586</i>	<i>-0.11</i>	<i>-1.01</i>
Unemployment Rate (Percent, Seasonally Adjusted)	2.59	2.80	2.73	--	--
<i>Unemployment Rate (Percent, Unadjusted)</i>	<i>2.63</i>	<i>3.02</i>	<i>2.77</i>	<i>--</i>	<i>--</i>

Notes: Where available, seasonally adjusted estimates are used in the indices. In addition, those expressed in dollar value (Building Permit Value, Transient Occupancy Tax, and Sales Tax) are expressed in constant 1987 dollars. Initial Claims are inverted prior to inclusion in the Leading Index; that is, an increase in claims results in a decrease in the index and visa versa. Because of its quarterly collection schedule, the Transient Occupancy Tax is smoothed. Unadjusted data (*italics*) and Fairfax County Labor Force data are not included in either index, but are shown for informational purposes. All percent changes are calculated from unrounded data.

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We are on the web at:  
**[www.co.fairfax.va.us/comm/  
economic/economic.htm](http://www.co.fairfax.va.us/comm/economic/economic.htm)**

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